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ABSTRACT

In its 2001 performance and accountability report on the Department of Education, the General Accounting Office (GAO) identified challenges with student financial-aid programs, financial management, and other areas facing education. The information presented in this report is intended to help sustain congressional attention and a departmental focus on continuing to make progress in addressing and overcoming these challenges and new ones that have arisen due to legislative changes since 2001. Problems identified include vulnerability of student-aid programs to fraud, waste, abuse, and mismanagement. Challenges that are being addressed, but cannot be assessed yet because implementation has just begun, include improving student achievement and teacher quality, transforming education into an evidence-based field, linking federal funding to accountability for results, and assisting and monitoring states and school districts' efforts to meet requirement of the No Child Left Behind Act of 2001. The report contains a list of GAO contacts, related GAO products, and a list of GAO performance, accountability, and high-risk series. (RT)

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United States General Accounting Office

GAO

Performance and Accountability Series

January 2003

Major Management Challenges and Program Risks

Department of Education

ED 475 103

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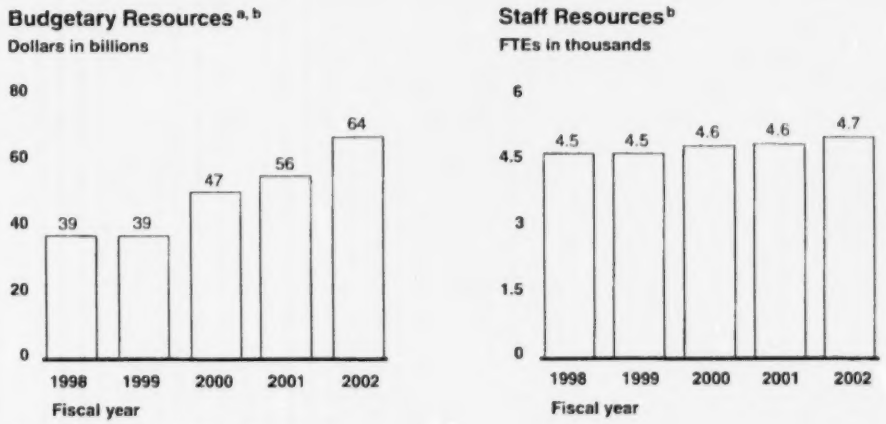
A Glance at the Agency Covered in This Report

The Department of Education's mission is to ensure equal access to education and to promote educational excellence throughout the nation. To accomplish this mission, the department funds programs in the following areas:

- preschool education;
- elementary and secondary education;
- special education and rehabilitative services;
- vocational and adult education;
- student financial assistance;
- higher education; and
- education research, statistics, and assessment.

The Department of Education's Budgetary and Staff Resources



Source: Budget of the United States Government.

[a] Budgetary resources include new budget authority (BA) and unobligated balances of previous BA.

[b] Budget and staff resources are actuals for FY 1998-2001. FY 2002 are estimates from the FY 2003 budget, which are the latest publicly available figures on a consistent basis as of January 2003. Actuals for FY 2002 will be contained in the President's FY 2004 budget to be released in February 2003.

This Series

This report is part of a special GAO series, first issued in 1999 and updated in 2001, entitled the *Performance and Accountability Series: Major Management Challenges and Program Risks.* The 2003 Performance and Accountability Series contains separate reports covering each cabinet department, most major independent agencies, and the U.S. Postal Service. The series also includes a governmentwide perspective on transforming the way the government does business in order to meet 21st century challenges and address long-term fiscal needs. The companion 2003 *High-Risk Series: An Update* identifies areas at high risk due to either their greater vulnerabilities to waste, fraud, abuse, and mismanagement or major challenges associated with their economy, efficiency, or effectiveness. A list of all of the reports in this series is included at the end of this report.

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Highlights

Highlights of GAO-03-99, a report to Congress included as part of GAO's Performance and Accountability Series

PERFORMANCE AND ACCOUNTABILITY SERIES

Department of Education

Why GAO Did This Report

In its 2001 performance and accountability report on the Department of Education, GAO identified challenges with student financial aid programs, financial management, and other areas facing Education. The information GAO presents in this report is intended to help sustain congressional attention and a departmental focus on continuing to make progress in addressing and overcoming these challenges and new challenges that have arisen due to legislative changes since 2001. This report is part of a special series of reports on governmentwide and agency-specific issues.

What Remains to Be Done

GAO believes the Department should

- continue efforts to reduce vulnerability in student financial aid programs,
- continue implementation of actions to address financial management and internal control weaknesses,
- assist and monitor states and school districts' efforts to meet requirements of NCLBA, and
- ensure that research it conducts and funds is rigorous and relevant.

www.gao.gov/cgi-bin/getrpt?GAO-03-99.

To view the full report, click on the link above. For more information, contact Cynthia M. Fagnoni at (202) 512-7215 or fagnonic@gao.gov.

What GAO Found

Education has taken steps to address its continuing challenges of reducing vulnerabilities in its student aid programs and improving its financial management, such as establishing a senior management team to address key issues. Meaningful actions are underway, but Education does not yet have the relevant, reliable, and timely information needed to effectively manage these programs, and as a result the student aid programs continue to be at high risk.

- **Reduce vulnerability of student aid programs to fraud, waste, abuse, and mismanagement.** Education has made considerable changes to address the ongoing challenges in administering its student aid programs. However, Education needs to continue to address systems integration issues, reduce fraud and error in student aid application and disbursement processes, collect on student loan defaults, and improve its human capital management.
- **Improve financial management.** Education has implemented many actions to address its financial management weaknesses, but it is too early to determine if these actions will be effective. It will need to continue implementing corrective actions in order to resolve its financial management and internal control weaknesses.

Education will face new management challenges as it helps states and school districts meet the goals and requirements of the No Child Left Behind Act (NCLBA). Implementation of the law has just begun, therefore it is too early to assess Education's progress.

- **Improve student achievement and teacher quality.** Under NCLBA there is an increased emphasis on improving student achievement and the quality of teachers. Education will need to monitor states' and school districts' efforts to have students meet challenging academic standards and ensure that all teachers meet standards outlined in NCLBA.
- **Transform education into an evidence-based field.** Education promotes and sponsors many types of research but has conducted and funded limited research on the effectiveness of some of its programs. Education will need to develop and enforce rigorous standards for research projects it conducts and funds.
- **Link federal funding to accountability for results.** Education will need to help states meet the increased assessment and accountability requirements of NCLBA. This will be a challenge because a majority of states had difficulty complying with previous requirements and there are questions about the completeness and accuracy of some of the assessment data.

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Comptroller General
of the United States

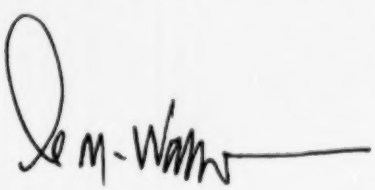
United States General Accounting Office
Washington, D.C. 20548

January 2003

The President of the Senate
The Speaker of the House of Representatives

This report addresses the major management challenges and program risks facing the Department of Education as it seeks to ensure equal access to education and to promote educational excellence throughout the nation. The report discusses the actions that Education has taken and that are under way to address the challenges GAO identified in its Performance and Accountability Series 2 years ago, and major legislative events that have occurred that significantly influence the environment in which the department carries out its mission. Also, GAO summarizes the challenges that remain, new ones that have emerged, and further actions that GAO believes are needed.

This analysis should help the new Congress and the administration carry out their responsibilities and improve government for the benefit of the American people. For additional information about this report, please contact Cynthia M. Fagnoni, Managing Director, Education, Workforce and Income Security, at (202) 512-7215 or at fagnonic@gao.gov.



David M. Walker
Comptroller General
of the United States

Major Performance and Accountability Challenges

In our last update in 2001,[1] we identified several management challenges the Department of Education faced in administering its programs at the elementary, secondary, and postsecondary levels. These included (1) ensuring access to postsecondary education while reducing vulnerability of student aid programs to fraud, waste, abuse, and mismanagement; (2) encouraging states to improve performance information and upgrade federal evaluations used to assess how well all children reach challenging academic standards; (3) promoting coordination with other federal agencies and school districts to help build a solid foundation of learning for all children; and (4) improving financial management to help build a high performing agency. We also continued to designate Education's student financial aid programs at high risk for fraud, waste, abuse, or mismanagement.

Since 2001, legislative changes and world events have significantly altered the environment in which Education operates, particularly at the elementary and secondary level. In 2002, Congress enacted the No Child Left Behind Act (NCLBA)[2] to address concerns about student performance and the quality of elementary and secondary schools. This act includes significant changes in federal education policy and places additional requirements on states, beyond those in the Elementary and Secondary Education Act (ESEA) reauthorized in 1994. It includes reforms designed to increase accountability, provide choices to students in low-performing schools, ensure that all teachers are highly qualified, and promote the use of scientifically based research. For many of the NCLBA requirements, Education will need to help states and local school districts implement them. In addition to the NCLBA, the terrorist attacks of September 11th affected the educational environment. The attacks underscored the concerns about students' safety while at school and raised concerns about efforts to monitor foreign students attending schools in the United States. Furthermore, the attacks required educators to develop approaches and methods to help students understand the events.

In 2003, Education will continue to face management challenges in administering its student financial aid programs and its financial management. Education has made progress and demonstrated its

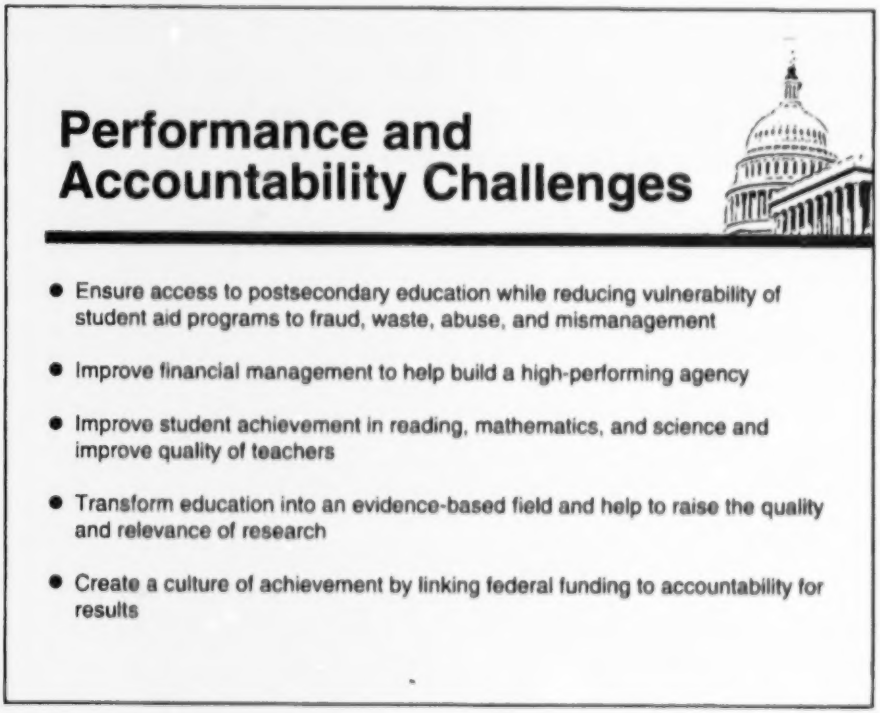
[1] U.S. General Accounting Office, *Major Management Challenges and Program Risks: Department of Education*, GAO-01-245 (Washington, D.C.: Jan. 2001).

[2] P. L. 107-110 (Jan. 8, 2002).

commitment to addressing weaknesses in the student financial aid programs, but it does not yet have relevant, reliable, and timely financial and management information needed to effectively administer its grant and loan programs and the internal controls needed to maintain the integrity of their operations. Therefore, these programs continue to be at high risk for fraud, waste, abuse, and mismanagement. Education has also taken steps to address its financial management weaknesses, but further improvement is needed in order to ensure accountability to taxpayers.

Also, in 2003, Education will need to help states and school districts meet the goals and requirements of NCLBA. Although implementation of NCLBA is just beginning and it is too early to assess Education's progress, we have identified several new challenges based on Education's goals that it will face. These challenges are (1) improving student achievement in reading, math, and science and improving teacher quality; (2) transforming education into an evidence-based field by helping to raise the quality and relevance of research; and (3) creating a culture of achievement by linking federal funding to accountability for results. Two of the challenges, improving student achievement and teacher quality and helping raise the quality and relevance of education research, were previously reported in 2001 as one single issue—improve performance information and upgrade federal evaluations. Because NCLBA places greater importance on these issues and Education has identified them separately as strategic goals, we too have separately identified them as challenges. The third challenge—linking federal funding to accountability for results—is new and reflects the emphasis that NCLBA has placed on accountability at the federal, state, and local levels. Further, one challenge identified in 2001—promoting coordination with other federal agencies and school and local agencies—has been dropped because Education has made improvements in this area.

In summary, the specific major management challenges that Education continues to face and new challenges it is just beginning to face are as follows:


Performance and Accountability Challenges
Ensure access to postsecondary education while reducing vulnerability of student aid programs to fraud, waste, abuse, and mismanagement
Improve financial management to help build a high-performing agency
Improve student achievement in reading, mathematics, and science and improve quality of teachers
Transform education into an evidence-based field and help to raise the quality and relevance of research
Create a culture of achievement by linking federal funding to accountability for results

Ensure Access to Postsecondary Education While Reducing Vulnerability of Student Aid Programs to Fraud, Waste, Abuse, and Mismanagement

At the postsecondary level, Education has continued to help students finance their education, but faces continued challenges in preventing fraud, waste, abuse, and mismanagement. Through federal grant and loan programs, millions of students, some of whom might not otherwise have access to higher education, have been able to enroll in postsecondary educational programs of their choice. These grant and loan programs provide over $50 billion annually in student aid. Education is responsible for ensuring that these programs are efficiently managed, establishing procedures to ensure that loans are repaid, and having adequate procedures to prevent fraud and abuse. Since 1990 we have identified these programs to be at high risk for fraud, waste, abuse, and mismanagement. To address these vulnerabilities, Education faces continuing challenges in addressing financial aid systems integration issues, reducing fraud and

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error in the student aid application and disbursement processes, collecting on defaulted student loans, and improving its human capital management.

Both Congress and Education have made changes to address the ongoing management challenges in administering the student financial aid programs. To address vulnerabilities in federal student aid programs and other long-standing management weaknesses, Congress established Education's Office of Federal Student Aid (FSA)[3] as a performance-based organization (PBO) in 1998. The specific purposes of the PBO are to increase accountability of officials; provide greater flexibility in management; integrate information systems; reduce costs; and develop and maintain a system containing complete, accurate, and timely data to ensure program integrity. FSA is also required to develop an annual 5-year performance plan and to prepare an annual performance report. FSA completed a performance plan for fiscal years 2000-04. However, the performance report for fiscal years 2000 and 2001 were not issued until December 2002. We have recommended that FSA and Education work collaboratively to take the steps necessary to ensure that complete and timely annual performance reports are submitted to Congress.

Since our last update in 2001, Education has made progress in and demonstrated its commitment to addressing the issues that have made student financial aid programs vulnerable to fraud, waste, abuse, and mismanagement. Education established a Management Improvement Team (MIT) comprised of senior-level managers within Education to formulate strategies to address key financial and management problems throughout the agency. The MIT has developed a system to identify, track, and resolve audit and management issues both agencywide and within the student financial aid programs. According to the MIT Accomplishments Report, it has undertaken several initiatives to improve the weaknesses in these programs. One initiative has resulted in collecting $269 million in fiscal year 2002 by locating defaulted borrowers and matching them with the Department of Health and Human Services' National Directory of New Hires database. Despite this commitment, Education does not yet have relevant, reliable, and timely financial and management information essential to effectively manage these programs and the internal controls to maintain the integrity of their operations.

[3] Financial aid programs are administered by an office previously known as the Office of Student Financial Assistance (SFA).

While Education has taken steps to address some of its long-standing systems integration issues, critical work remains. Over the years Education has spent millions to integrate and modernize its many financial aid systems in an effort to provide more information and better service to its customers—students, parents, institutions, and lenders. Effectively and efficiently investing in information technology requires, among other things, an institutional blueprint that defines in both business and technology terms the organization's current and target operating environments and provides a transition roadmap. This institutional blueprint, commonly called an enterprise architecture, is a recognized hallmark of successful public and private sector organizations. Because Education did not have an enterprise architecture and it lacked the ability to track students across programs, we recommended in 1997 that Education develop and enforce a departmentwide architecture and establish standard reporting formats and data definitions.[4] In September 2002, Education's Office of Inspector General (OIG) reported that Education and FSA had made progress in taking specific actions to lay the groundwork for their enterprise architectures, but that critical elements still needed to be completed, including integrating separate enterprise architectures into a departmentwide one and fully implementing common identifiers for students and institutions to use in departmentwide system applications.

[4] U.S. General Accounting Office, *Student Financial Aid Information: Systems Architecture Needed to Improve Programs' Efficiency*, AIMD-97-122 (Washington, D.C.: July 29, 1997).

With respect to FSA's modernization plans, we have reported that FSA has selected a viable, industry-accepted means for integrating and using its existing data on student loans and grants.[5] FSA has made progress in implementing this approach for one of its major business functions—the Common Origination and Disbursement process, which includes the implementation of a common record that institutions can use to submit student financial aid for the Pell Grant and Direct Loan programs. However, the ultimate success of this process hinges on FSA completing critical work, including addressing serious postimplementation operational problems, and helping thousands of schools in the implementation of the common record. Further, there are important elements to managing any information technology investment that FSA has not yet completed, such as determining whether expected benefits are being achieved and tracking lessons learned related to schools implementation of the common record. We have recommended that FSA expeditiously develop metrics, baseline data, and a tracking process for certain expected benefits; and develop and implement a process for continuously capturing and disseminating lessons learned in a written product or knowledge base to schools that have not yet implemented the common record.[6] FSA has begun to take actions on both of these issues although more work remains. While FSA has made progress integrating its systems, both we and Education's OIG have found that neither its performance plan nor its subsequent annual reports readily provide information about its progress in integrating systems. We have recommended that FSA develop and include clear goals, strategies, and measures in its plans and reports to better demonstrate its progress in integrating its financial aid systems.[7] In response to this recommendation, Education plans to revise FSA's performance plan to establish measurable goals and milestones for systems integration efforts in order to provide direction to FSA and enhance its accountability.

[5] U.S. General Accounting Office, *Student Financial Aid: Use of Middleware for Systems Integration Holds Promise*, GAO-02-7 (Washington, D.C.: Nov. 30, 2001).

[6] U.S. General Accounting Office, *Federal Student Aid: Progress Made in Implementing the Common Origination and Disbursement Process, but Critical Work Remains*, GAO-03-241 (Washington, D.C.: Dec. 31, 2002).

[7] U.S. General Accounting Office, *Federal Student Aid: Additional Management Improvements Would Clarify Strategic Direction and Enhance Accountability*, GAO-02-255 (Washington, D.C.: Apr. 30, 2002).

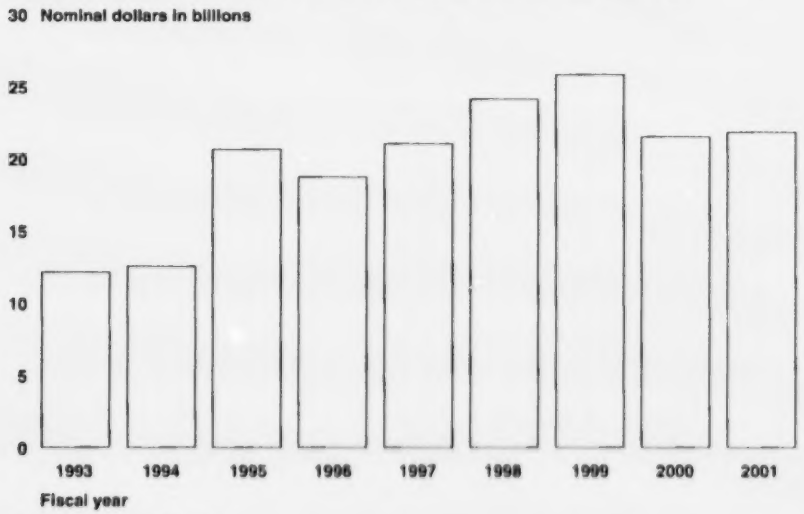
Education also faces challenges in maintaining program integrity, specifically ensuring that information reported on student aid applications is correct and that adequate internal controls exist to prevent erroneous and improper payments of grants and loans. To improve the integrity of the financial aid programs, Education should (1) continue to coordinate with the Internal Revenue Service (IRS) to verify income information reported on student aid applications, (2) provide clear policy and guidance on the impact of using tax provisions on student aid awards, and (3) implement controls to limit improper disbursements of grants and loans. In 2001, we reported that Education and IRS were implementing two pilot projects to match income data reported on student aid applications with IRS tax returns.[8] Education has performed two sample income matches with IRS and verifies income information by asking 30 percent of applicants to provide copies of their tax returns to their institutions' student financial aid offices. To implement the income match on a broader scale, legislation is needed to authorize IRS to release individual income data to Education for the purpose of verifying income on student aid applications. Education has worked with the Department of the Treasury and the Office of Management and Budget (OMB) to request that Congress enact such legislation. Also, we recommended that Education develop a policy specifying whether certain tax provisions should be included in the student aid eligibility formulas and clearly explain in its student aid application instructions who should report ownership of assets in higher education tax-preferred savings plans.[9] Education agreed with this recommendation and stated that it will use the next reauthorization of the Higher Education Act to review the ways in which students pay for college and the student aid eligibility formulas. Finally, we identified weaknesses in the internal control process used by Education to identify institutions that were disbursing grants and loans to ineligible students. Education has taken steps to strengthen the integrity of these payment processes, such as analyzing student data to identify high concentrations of students over 65 and eligible noncitizens at a single institution to determine if problems exist that warrant further review. These actions are encouraging and if properly implemented should help to improve internal controls over these vulnerable payments.

[8] GAO-01-245, 18.

[9] U.S. General Accounting Office, *Student Aid and Tax Benefits: Better Research and Guidance Will Facilitate Comparison of Effectiveness and Student Use*, GAO-02-751 (Washington, D.C.: Sept. 13, 2002).

A continuing challenge for Education and FSA is to prevent and collect defaulted student loans. While the national student loan default rate has decreased significantly from 11.6 percent in fiscal year 1993 to 5.9 percent in fiscal year 2000, the cumulative amount of defaulted student loans has increased by almost $10 billion over the same time period.[10] (See fig. 1.)

Figure 1: Amount of Student Loan Dollars in Default Remain High



Source: Department of Education.

Note: Balances include principal, interest, late fees, and administrative charges for defaulted loans under both the Federal Family Education Loan and Federal Direct Loan Programs.

[10] Some default principal amounts have been recovered through subsequent collections.

To address its challenges with defaulted student loans, Education and FSA have implemented several default management strategies, established electronic debiting as a repayment option, and entered into agreements[11] with some guaranty agencies to set up alternative processes to service and process claims for defaulted loans. FSA's draft fiscal year 2002 performance plan specified the goals it had for default management; however, it included only limited information about the strategies to achieve those goals. Without giving additional details on its strategies for default recovery and prevention, it is not clear how FSA will determine whether it has achieved its default management goals. We are reviewing the status of FSA's default management goals and will report the results in February 2003. Education has also developed electronic debiting as an option for students to repay their loans. We have recommended that Education take added steps to increase borrowers' awareness of this option and that Education modify the electronic debit applications, so that borrowers interested in prepaying their loans can designate larger withdrawal amounts than what they agreed to pay when they initially completed the application.[12] In response to our recommendation, Education will consider taking steps to better inform borrowers of their prepayment options, such as updating the *Exit Counseling Guide for Borrowers*. Finally, while Education has set up voluntary flexible agreements with four of its guaranty agencies, it is in the process of assessing whether they have been successful in lowering default and delinquency rates.

[11] A voluntary flexible agreement provides guaranty agencies flexibility to implement new business practices by waiving or modifying some of the requirements established under federal statutes that apply to other guaranty agencies.

[12] U.S. General Accounting Office, *Direct Student Loans: Additional Steps Would Increase Borrowers' Awareness of Electronic Debiting and Reduce Federal Administrative Costs*, GAO-02-350 (Washington, D.C.: Mar. 29, 2002).

Like other federal agencies, Education must address serious human capital management issues. About 34 percent of Education's career staff is eligible to retire, and about 38 percent of the workforce within FSA was eligible to retire in September 2001. Given the critical importance of human capital management, we recommended in June 2001 that Education develop and include specific human capital goals and measures in its performance plans.[13] In response to our recommendation, Education added a specific objective to its strategic plan. We also recommended that FSA develop and implement a comprehensive human capital strategy that incorporates succession planning and addresses staff development.[14] FSA has several human capital initiatives, including ones that address recruitment and performance evaluation. Moreover, in 2002 Education issued a comprehensive, 5-year human capital plan that also incorporates FSA. The plan, entitled One-ED, aims to transform the agency into a flexible, high-performing workplace focused on program outcomes and management reforms. Also, the One-ED report identifies four critical areas in which improvements should be made: (1) top leadership commitment, (2) performance management, (3) workforce skills enhancement, and (4) leadership and succession planning. The report outlines specific steps and time frames for accomplishing tasks to improve its human capital management in these critical areas. For example, to address the lack of succession planning, Education has identified a model for identifying, mentoring, and developing leaders and potential leaders on the basis of performance and skills and plans to implement this model by the end of the 2002-03 performance cycle. While these are important steps, Education will need to continuously focus its attention on human capital.

Improve Financial Management to Help Build a High-Performing Agency

Weaknesses in Education's financial management and information systems limit its ability to achieve one of its key goals—improving financial management to help build a high-performing agency. With the exception of 1997, Education has not received an unqualified—or "clean"—opinion on its financial statements since its first agencywide audit in 1995. Education's fiscal years 2001 and 2000 financial statement audit opinions were "qualified" because Education could not provide the auditors with

[13] U.S. General Accounting Office, *Department of Education: Status of Achieving Key Outcomes and Addressing Major Management Challenges*, GAO-01-827 (Washington, DC: June 29, 2001).

[14] GAO-02-255, 26.

sufficient evidence to support revisions to amounts in previously issued financial statements and certain amounts in the fiscal years 2001 and 2000 financial statements. Education's auditors also reported significant internal control weaknesses. These weaknesses hamper its ability to generate reliable, useful, and timely information on an ongoing basis to ensure accountability to taxpayers. Although Education has implemented many actions in response to its financial management weaknesses, it is too soon to determine if the changes made will prove effective.

Education faces continuing challenges as it works to obtain an unqualified audit opinion on its financial statements. Beginning with its first agencywide audit in 1995 and continuing through 2001, Education's auditors have repeatedly identified significant financial management weaknesses. They also issued qualified opinions on its fiscal years 2001 and 2000 financial statements. For both years Education was unable to provide the auditors with sufficient evidence, and the auditors were not able to otherwise satisfy themselves as to the accuracy or completeness of certain amounts included in the financial statements. These insufficiently explained or supported items included (1) corrections of over $1 billion in fiscal years 2001 and 2000 to amounts previously reported in the fiscal years 2000 and 1999 financial statements and (2) over $1.5 billion of assets and liabilities reported in the fiscal years 2001 and 2000 financial statements. These problems, in part, result from inadequate internal controls over Education's financial management systems and financial reporting process and other areas as described in the following paragraphs.

Weaknesses in Education's financial management systems and financial reporting process present another challenge. For fiscal years 2001 and 2000, Education's auditors again reported issues relating to financial management systems and financial reporting as a material internal control weakness. This broad control weakness has been defined to include elements relating to (1) the absence of a fully integrated financial management system; (2) deficiencies in the general ledger system that require extensive analysis of accounts to resolve errors by manual adjustments; (3) the need for a rigorous review of interim financial statements for timely identification and correction of errors; (4) the inability to accumulate, analyze, and present reliable financial information in the form of financial statements; (5) the dependence on a variety of stopgap measures to prepare financial statements; (6) the insufficiency of control activities, such as top-level reviews to address and to seek to compensate for systemic control weaknesses; and (7) the need for a review to identify and quantify improper payments.

Education has taken some steps to address these issues. For fiscal years 2001 and 2000, auditors reported improvements in the financial reporting process. For example, during 2001 Education's MIT developed specific actions to address issues raised in previous financial statement audits. According to the MIT Accomplishments Report, Education began performing certain critical reconciliations on a monthly basis and began preparing interim financial statements, which helped identify areas needing further study. In addition, Education replaced its general ledger system. Although these are positive steps, it is too early to determine what impact these changes will have on the financial reporting process, including the timely preparation of auditable financial statements. Timely preparation of the statements will be an additional challenge as OMB implements accelerated financial reporting deadlines that require Education to produce audited financial statements within 4 months after the end of the fiscal year beginning with 2002, and within 1.5 months after the end of the fiscal year beginning in 2004. To meet these deadlines, Education will need more than workaround solutions and temporary fixes to address surface conditions that are the result of underlying core causes.

Education needs to take further action to reduce its vulnerability to improper payments and lost assets. We reported that for May 1998 through September 2000, weak internal controls over (1) the grants and loan disbursement process failed to detect certain improper payments; (2) third party draft processes increased Education's vulnerability to improper payments; and (3) government purchase cards resulted in some fraudulent, improper, and questionable purchases.[15] We also reported that Education lacked adequate internal controls over computers acquired with purchase cards and third party drafts. Among other things, we found that computer purchases valued at almost $400,000 were not recorded in Education's property records, and $200,000 of that computer equipment could not be located. Auditors also reported that internal controls need strengthening in numerous areas relating to Education's investment of over $30 million in property and equipment. These areas include the need to (1) improve the timeliness of its physical inventory and the reconciliation of such inventories to the books and records; (2) improve the controls over government owned property in the hands of contractors; (3) reconcile amounts in detailed property records to support amounts reported in

[15] U.S. General Accounting Office, *Education Financial Management: Weak Internal Controls Led to Instances of Fraud and Other Improper Payments*, GAO-02-406 (Washington, D.C.: Mar. 2002).

financial statements; and (4) improve standardized polices and procedures for the receipt, tracking, and safeguarding of property and equipment. Improvements in these areas are important to ensure proper safeguarding of government assets.

In response to our report of significant internal control weaknesses in Education's payment processes, government purchase cards, and poor physical control over its computer assets, several changes were made to policies and procedures to improve internal controls and program integrity. These changes are positive steps, but in many cases, our follow-up work indicated that they had not been effectively implemented. In March 2002, we reported that vulnerabilities remain in all areas we reviewed, except for third party drafts, which have been discontinued.[16] Until these issues are fully addressed, Education will continue to be susceptible to improper payments and lost assets.

Finally, Education will need to continue its actions in addressing weaknesses in its information systems. For fiscal years 2001 and 2000 Education's auditors reported that they did not substantially comply with the Federal Financial Management Improvement Act (FFMIA) of 1996. FFMIA requires agencies to institute financial management systems that substantially comply with federal financial management systems requirements, applicable accounting standards, and the federal government's Standard General Ledger. Auditors reported that without a fully integrated financial management system, deficiencies in the general ledger system, deficiencies in the manual adjustment process, and the need to strengthen other financial management controls such as reconciliation processes, impairs Education's ability to accumulate, analyze, and present reliable financial information. Education also needs to address identified control weaknesses in its service continuity program. These reported weaknesses included the need for (1) a departmentwide, risk-based information security plan; (2) strengthened controls over critical financial and sensitive grant information to prevent unauthorized access and disclosure; and (3) an overall information technology security program. In September 2001 we reported that Education had made progress in correcting certain information system control weaknesses.[17] However, we

[16] GAO-02-406, 2.

[17] U.S. General Accounting Office, *Education Information Security: Improvements Made, but Control Weaknesses Remain*, GAO-01-1067 (Washington, D.C.: Sept. 12, 2001).

identified weaknesses in information systems that place critical financial and sensitive grant information at risk of unauthorized access and disclosure, and key operations at risk of disruption. We recommended that Education (1) correct the information system control weaknesses related to access authority, system software, network security, user identification and password management, access monitoring, physical access, segregation of duties, application program changes, and service continuity; and (2) fully implement a comprehensive departmentwide computer security management program. In response to our recommendations, Education stated that it had developed a corrective action plan and is taking steps to further strengthen and develop a more comprehensive information security program.

Improve Student Achievement in Reading, Mathematics, and Science and Improve Quality of Teachers

Educating children at the elementary and secondary level is a high priority in our society; however, there have been many concerns expressed about the academic performance of our students. Various studies have indicated that one of the key components to improving student performance is the presence of qualified teachers. However, many school districts have not been able to attract and retain qualified teachers. To address concerns about student achievement, the federal investment in elementary and secondary education has increased significantly from over $20 billion in fiscal year 2000 to nearly $30 billion in fiscal year 2002. This increased investment is accompanied by an increased emphasis on accountability in NCLBA for schools to raise achievement levels for all students—including those from poor families, with limited English proficiency, and with disabilities. Education will be faced with the challenge of helping states improve student achievement in reading, mathematics, and science and improve teacher quality. Although implementation of NCLBA has just begun, Education will need to monitor states' and school districts' efforts to meet the goals established by NCLBA.

One goal of NCLBA is to improve the academic achievement among students from poor families. Title I is the largest federal program supporting elementary and secondary education and is an important source of funding for many high poverty schools and districts. NCLBA increased funding for Title I by $1.7 billion from $8.6 billion in fiscal year 2001 to $10.3 billion in fiscal year 2002. Title I funds are a key element in helping states and school districts meet the NCLBA goal of improving academic achievement among students from poor families. We reported in January 2002 that using a less restrictive hold-harmless provision would reduce variation in funding among school districts with similar numbers and percentages of poor children and would allocate more funding to states with more rapidly growing numbers of poor children.[18] NCLBA revised the hold-harmless provisions to reallocate some grants to be more reflective of the number of poor children in the school district. Education's challenge will be to monitor states' use of these funds and determine whether the funds are reaching students in high poverty districts and whether the funds are helping students from poor families improve.

Based on new requirements in NCLBA, Education will need to help states and school districts improve achievement among students with limited English proficiency and students with disabilities. In May 2001 we reported that Education's four bilingual education programs were designed to achieve the same overall objective and that consolidating them into one single program would provide Education the flexibility to meet the varied needs of school districts serving students with limited English proficiency.[19] NCLBA offers a new, single grant program to address the needs of students with limited English proficiency and requires that these students be tested for reading and language arts in English after they have attended school in the United States for 3 consecutive years. To meet the challenge of educating students with limited English proficiency, school districts have flexibility in the methods they use and states have flexibility in how they measure proficiency. Education's challenge will be to provide enough information and assistance to ensure that states and school districts, including those that had not previously participated in federal bilingual education programs, are aware of the available program

[18] U.S. General Accounting Office, *Title I Funding: Poor Children Benefit Though Funding Per Poor Child Differs*, GAO-02-242 (Washington, D.C.: Jan. 31, 2002).

[19] U.S. General Accounting Office, *Bilingual Education: Four Overlapping Programs Could Be Consolidated*, GAO-01-657 (Washington, D.C.: May 14, 2001).

flexibilities and to help states and school districts select program options that best meet their needs.

To improve achievement of students with disabilities, Education will need to continue to monitor special education programs authorized by the Individuals with Disabilities Education Act. Federal dollars are used together with state, local, and private resources to help states provide a comprehensive system of early intervention services to enhance the development of infants and toddlers with disabilities or those who are at risk of developmental delays. Additionally, federal funds are also used to provide access to a high quality elementary and secondary education for students with disabilities. While there is limited information available on the long-term effectiveness of these programs, Education has a few studies underway to collect information on the outcomes of children enrolled in these programs. Education will need to continue these efforts in order to help states and school districts measure achievements and progress of students with disabilities.

Education will face many challenges in supporting the goal of improving student achievement in reading, mathematics, and science, including ensuring that educators are aware of and have access to current math and science curriculum materials. Education has invested a significant amount of money in mathematics and science education programs that support a wide range of activities, including the development of curriculum materials. Since other federal agencies also develop mathematics and science materials, the National Clearinghouse for Mathematics and Science Education was established within Education to serve as a central source of information about these materials. We reported that most agencies did not send copies of all their mathematics and science materials to the clearinghouse.[20] As a result, educators seeking to make informed decisions about these materials do not have a comprehensive source available for federally sponsored materials. We recommended in 2000 that Education take steps to notify agencies that the law requires them to submit materials to the Clearinghouse and to establish guidelines to follow in submitting the materials. Furthermore, we recommended that Education inform agencies that do not generally evaluate their educational materials about the importance of these evaluations and about the mechanisms available for

[20] U.S. General Accounting Office, *Math and Science Education: Comprehensive Information About Federally Funded Materials Not Available*, GAO-HEHS-00-110 (Washington, D.C.: July 12, 2000).

evaluating their materials. In June 2001, Education cosponsored a workshop in which agency officials discussed with officials from other federal agencies the requirement that they submit materials to the clearinghouse as well as the principles and practices for evaluating mathematics and science materials.

Education will face challenges helping states and school districts meet the NCLBA requirements that all teachers have (1) a college degree, (2) been certified to teach in their state, and (3) demonstrated adequate knowledge in the subject area in which they are teaching by the 2005-06 school year. To meet this challenge, Education will need to help states ensure that their higher education institutions are adequately preparing students to become teachers and that the programs states use to recruit teachers from other professions are effective. Through teacher quality enhancement grants authorized by Title II of the Higher Education Act (HEA), Education provides funds to states or partnerships between higher education institutions and local school districts for activities to improve teaching in their locality or state. It is too early to determine the grants' effect on the quality of teaching in the classroom; however, we have made some recommendations to Education on improving its oversight of these grants. Because of broadly defined accountability measures, information collected as part of the accountability provisions has not allowed Education to accurately report on the quality of teacher training programs and the qualifications of current teachers in each state. We recommended that Education address this concern by providing clear definitions of terms associated with the collection of required information and allow sufficient time for verification of information collected.[21] Education has identified three specific actions it has taken, or plans to take, that will improve the quality of the data. These include (1) adding a goal to its strategic plan that focuses on refining the Title II accountability system, (2) aligning the Title II data collection system with teacher quality requirements under NCLBA to reduce the burden on states in reporting data on teachers and their qualifications, and (3) developing legislative proposals for Congress to consider during the reauthorization of HEA.

[21] U.S. General Accounting Office, *Higher Education: Activities Underway to Improve Teacher Training, but Reporting on These Activities Could Be Enhanced*, GAO-03-6 (Washington, D.C.: Dec. 11, 2002).

In addition to grants authorized by HEA, Education administers many other programs that support training for teachers. We reported in 1999 that the number and diverse nature of these programs create challenges in determining whether the programs are meeting the goals of providing teachers with access to programs that will improve their teaching skills.[22] NCLBA combines a couple of these teacher training programs into a single grant program. Under the single grant, states and school districts are given flexibility to select strategies that best meet their teacher training needs. To meet the need for quality teachers, states have adopted alternative programs for persons pursuing second careers as teachers, some as a result of the success of the federally funded Troops to Teachers program. The Troops to Teachers program recruits former military personnel and helps them become certified and employed as teachers. As we reported, this program has been successful in recruiting mathematics and science teachers and teachers to inner city schools and high schools.[23]

Transform Education into an Evidence-Based Field and Help to Raise the Quality and Relevance of Research

Federal education programs will also be held accountable for demonstrating results in terms of student outcomes, and Education will be responsible for ensuring that the quality of research that it funds or conducts meets the highest standards. Since Education promotes and sponsors many types of research and disseminates much of this information to interested states, school districts, and others, a primary challenge will be to develop and enforce rigorous standards for research projects. We reported in 2001 that Education has had trouble gathering consistent information on federally funded elementary and secondary programs because of the flexibility states and school districts have to implement these programs.[24] Nonetheless, Education has funded some projects designed to measure the effectiveness of its programs. For example, Education has supported research to examine the impact of Even Start, a program designed to improve the educational outcomes for disadvantaged children and their families. The study used an experimental design in which groups of children were randomly assigned either to a group that received program services or to a group that did not receive

[22] U.S. General Accounting Office, *Teacher Training: Over $1.5 Billion Federal Funds Invested in Many Programs*, HEHS-99-117 (Washington, D.C.: May 5, 1999).

[23] U.S. General Accounting Office, *Troops to Teachers: Program Helped Address Teacher Shortages*, GAO-01-567 (Washington, D.C.: May 25, 2001).

[24] GAO-01-245, 20.

program services. The study examined 18 local Even Start programs over a 6-year period and is expected to be completed in 2003. Furthermore, Education has added to its strategic plan a goal to raise the quality of research it funds or conducts and has included measures on the percent of new evaluation projects it funds that use randomized experimental designs. In October 2002 Congress passed the Education Sciences Reform Act, which made significant changes to the structure of Education's research activities and sets standards to ensure that evaluations measure the effectiveness of Education's programs.

For some areas, such as dropout prevention and student financial aid programs, Education has sponsored limited research on their effectiveness. Education funds programs that provide grants to states and localities to serve at-risk youth. These programs provide a range of services, including dropout prevention services. Because dropout prevention is one of many services provided in these programs, it is difficult to assess their effect on preventing school dropouts. Furthermore, Education does not require evaluations of these programs to include assessments of their effects on dropout rates. We recommended in February 2002 that Education evaluate the quality of existing dropout prevention research, determine how best to encourage or sponsor rigorous evaluation of the most promising state and local dropout prevention programs and practices, and determine the most effective means of disseminating the results of these and other available studies to state and local entities interested in reducing dropout rates.[25] Education has agreed that rigorous evidence is needed and said that it will consider commissioning a systematic review of the literature on this topic. Education has also sponsored limited research on the impact of federal financial aid programs on student's decisions to attend and complete college, but instead has focused its studies on program delivery. We recommended in September 2002 that Education sponsor research on the impact of federal financial aid programs on postsecondary education attendance and choice, completion, and costs.[26] Education has agreed to identify opportunities to fund research on how the federal investment affects students' postsecondary education attendance and completion and institutions' tuition and financial aid behavior.

[25] U.S. General Accounting Office, *School Dropouts: Education Could Play a Stronger Role in Identifying and Disseminating Promising Prevention Strategies*, GAO-02-240 (Washington, D.C.: Feb. 1, 2002).

[26] GAO-02-751, 31.

To help states and school districts meet the requirements of NCLBA, Education could take steps to improve research on educational alternatives for students. NCLBA provides choices for parents of students in low-performing schools and allows states some flexibility in the type of choices that they provide. Under NCLBA, parents of children in low-performing schools have the option of transferring their child to a better performing public school or a public charter school. Moreover, states can use federal funds to establish public charter schools or to provide supplemental educational services, such as private tutoring, to students in low-performing schools. States and school districts may also use private management companies to operate low-performing schools. Our review of public schools managed by private for-profit management companies found insufficient research on the effectiveness of these companies' programs on student achievement, parental satisfaction, parental involvement, or school climate.[27]

In addition to choices within public schools, some parents have the option of using publicly or privately funded vouchers to send their children to private schools. Our reviews of both publicly and privately funded vouchers have found that there is limited research on the effectiveness of these programs. For example, we reported that research on students' academic achievement in publicly funded voucher programs in Cleveland and Milwaukee found little or no difference in voucher and public school students' overall academic performance, but some studies found that voucher students performed better in some of the subject areas tested.[28] None of the findings is definitive because researchers obtained different results when they used different methods to compensate for weaknesses in the data. Moreover, we reported that the results of studies on privately funded vouchers in New York City; Washington, D.C.; and Dayton, Ohio, suggest positive academic achievements for African American students in New York.[29] The programs examined were relatively small in scale; therefore, the findings cannot be generalized beyond the specific programs and geographic areas where they were conducted.

[27] U.S. General Accounting Office, *Public Schools: Insufficient Research to Determine Effectiveness of Selected Private Education Companies*, GAO-03-11 (Washington, D.C.: Oct. 29, 2002).

[28] U.S. General Accounting Office, *School Vouchers: Publicly Funded Programs in Cleveland and Milwaukee*, GAO-01-914 (Washington, D.C.: Aug. 31, 2001).

[29] U.S. General Accounting Office, *School Vouchers: Characteristics of Privately Funded Programs*, GAO-02-752 (Washington, D.C.: Sept. 10, 2002).

Another step to raising the quality and relevance of education research is to develop methods to effectively assess the usefulness of research funded by various departments within Education. Education could improve the way it evaluates research funded through its Research & Development Centers, Regional Labs, and Comprehensive Centers.[30] Peer review is well accepted and widely used throughout the government to assess the merit of research proposals and the scientific soundness of research. Education has used a peer review process to assess its Research & Development Centers and Regional Labs; however, the peer review process it used did not directly assess research usefulness, outcomes, or effects. Moreover, Education's procedures for peer reviews had a potential for bias and were cumbersome, which limited the usefulness of their findings. To address these concerns, we have recommended that Education revise its peer review standards to allow for division of labor and greater concentration on assessing the quality of projects, services, and products rather than reviewing procedural materials. Evaluations about the Comprehensive Centers as a network provided useful information, but we recommended that future evaluations provide information on each center. Education agreed with these recommendations but did not provide specific information on how it will proceed. In 2002, Congress passed new legislation that includes a provision to conduct evaluations of each Comprehensive Center.

[30] The Research & Development Centers, Regional Labs, and Comprehensive Centers share responsibility with other programs created by Congress for education research, research-based activities, and technical assistance.

Create a Culture of Achievement by Linking Federal Funding to Accountability for Results

The increased focus on assessment and accountability under NCLBA presents significant challenges to Education, particularly since a majority of states had difficulty meeting previous requirements. Education will need to help states implement NCLBA's requirements and monitor their progress. Although implementation of NCLBA has just begun, states were required under the Elementary and Secondary Education Act, reauthorized in 1994, to meet certain accountability and assessment standards. We reported that as of March 2002 a majority of states had not complied with Title I requirements under the 1994 law; thus, many states may not be well positioned to meet the deadlines for implementing the requirements under NCLBA.[31] Noncompliant states had most commonly not met two Title I requirements—assessing all students and breaking out assessment data by subcategories of students. While Title I did not permit states to exempt any student subgroup from their assessments and Education's guidance stated that individual exemptions were permitted by the states only in extraordinary circumstances, many states allowed substantial exemptions for students with limited English proficiency and disabilities. Unlike the 1994 law, NCLBA requires schools to demonstrate progress in the academic achievement of all students and report progress by race and ethnicity and whether students are economically disadvantaged, have limited English proficiency, or have disabilities. Education's challenge will be to ensure that states comply with the new standards and to hold them accountable for results.

[31] U.S. General Accounting Office, *Title I: Education Needs to Monitor States' Scoring of Assessments*, GAO-02-393 (Washington, D.C.: Apr. 1, 2002).

Furthermore, Education will need to take steps to ensure that assessment data are complete and accurate in order to reduce the potential for undetected errors in test scoring that could affect decisions about schools and students and damage confidence in test results. In April 2002, we reported that almost all states had hired contractors to score Title I assessments; however, 16 of these states reported that they did not monitor the contractors' work.[32] Moreover, in several states, contractors made scoring errors that in some cases resulted in students and schools being erroneously identified as needing services and improvement. Because of this finding, we recommended that Education use state compliance reviews to monitor states' oversight of their contractors. Education reported that it plans to review states' efforts to monitor the quality of products delivered by their contractors and the procedures used by states to ensure accuracy of the assessment data. In a joint audit with Education's OIG, two state audit agencies and one city audit agency, we assessed the quality of accountability data used by states. As part of this effort OIG reported on the quality of Title I performance data used to identify schools in need of improvement in several states. OIG reported that Education should strengthen its management controls to ensure that Title I school improvement data are reliable and valid.[33]

[32] GAO-02-393, 3.

[33] U.S. Department of Education, Office of Inspector General, *Improving Title I Data Integrity for Schools Identified for Improvement* (Philadelphia, Pa.: Mar. 2002).

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